



## DEPARTMENT OF VETERANS AFFAIRS

Regional Loan Center  
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Website: <http://www.vba.va.gov/ro/phoenixlgy/index.htm>

September 1, 2005

Loan Guaranty Information Bulletin No. 26-05-09

### **SUBJ.: Pilot Program: Appraisal of Proposed Construction or Under Construction Properties from Model Homes (REVISED)**

#### **Purpose**

The purpose of this revised Information Bulletin is to update the instructions provided in the original Bulletin **26-04-05**, dated **May 27, 2004**. That bulletin announced a new Pilot Program allowing alternative procedures for Department of Veterans Affairs (VA) appraisals on Proposed or Under Construction properties in Arizona, California, and Nevada. While these revisions primarily involve procedural changes brought on by last year's transition from e-commerce (e-mailing of appraisals) to **E-Appraisal** (uploading of appraisals), the entire Pilot Program description and comprehensive instructions are restated here. In that way, this revised bulletin can fully replace, rather than merely supplement, the previous one.

#### **Background**

The VA Lender's Handbook, Chapter 10, Section 10.08 defines **New Construction** properties as newly built homes that are fully completed, less than one year old, and never owner-occupied. Within this definition, "fully completed" includes properties that are complete except for customer preference items (such as interior wall finishes, floor coverings, appliances, fixtures and equipment, etc.). For properties that are appraised as New Construction, neither construction exhibits nor VA or HUD inspections are required during construction.

By contrast, any property where construction has not progressed sufficiently to qualify as "New Construction" is classified as **Proposed Construction** or **Under Construction** (see Lender's Handbook, Chapter 10, Section 10.09). Such properties may be appraised before construction begins or at any intermediate stage prior to completion. Construction exhibits must be provided with the appraisal request and VA or HUD inspections are required during construction. Additionally, construction warranty requirements are less flexible than for New Construction.

#### **Reasons for Introducing the Pilot Program**

VA appraisal requirements differ based upon a property's construction status. Past experience has shown that all too frequently the person tasked with ordering a VA "New Construction" appraisal may have received inaccurate information regarding the property's construction status or perhaps has optimistically assumed that construction

would be completed prior to the appraiser's arrival on site. Oftentimes, that assumption has failed to pan out. Only when the fee appraiser actually arrives to perform the appraisal has it become apparent that the property is still under construction, and thus ineligible for appraisal as New Construction. This has led to unnecessary delays, as the fee appraiser must then ask for construction exhibits or, alternatively, must place the assignment on hold until construction is completed. Either way, loan closing is inevitably delayed, resulting in hardship to the veteran and dissatisfaction all around.

### **What Are the Requirements of the Pilot Program?**

Under the Pilot Program, the Phoenix Regional Loan Center allows certain Proposed or Under Construction properties within our jurisdiction to be appraised from an existing model home (rather than from plans and specs), using New Construction guidelines. The following restrictions and requirements apply:

- This procedure is available only to LAPP-approved lenders in good standing and to VA-registered builders with an established track record of routinely providing good quality construction. At a minimum, this means no valid construction complaints or other documented problems.
- There must be a **fully completed model home of the same plan type** as the subject home, located in the subject tract (or within the same market area), and with access readily available to the assigned appraiser.

While the Pilot Program procedures outlined here were initially designed to remedy the scenario involving a New Construction appraisal ordered too soon, their use is not limited to that situation alone. These alternative procedures may also be used for any proposed or under construction appraisal meeting the criteria stated above. This should provide greater overall flexibility for builders and lenders to select the appraisal procedure that best fits their needs, while still preserving an adequate measure of protection for the veteran.

### **What Are the Lender's Responsibilities Under this Pilot Program?**

#### **Ordering the Appraisal**

It shall be the responsibility of the requesting lender – ***prior to ordering an appraisal*** under this Pilot procedure – to confirm that both the builder and the subject property meet the requirements outlined above. These appraisals must be ordered through TAS as **Appraisal Type "LAP."** Entries on the TAS assignment screen are as follows:

- **Item 3.** Legal Description: enter the full legal description as usual. Then, in CAPITAL LETTERS, add the note: **"PILOT PROGRAM – APPRAISAL FROM MODEL HOME (LGIB 26-05-09)."** This is designed to alert the appraiser that the assignment is to be performed in compliance with this bulletin's instructions.
- **Item 9.** Building Status: Select "Less than 1 year old" and enter a valid, VA-assigned, Builder ID number in the field provided.

- Items 23 and 24: Enter contact information needed for appraiser's access to the model home (sales office location, hours of operation, phone number, etc.).
- Items 29D and 29E. Enter name, address, and phone number of the builder.
- Item 36. Proposed Sale Contract Attached? Select "Yes."

**Important:** Along with the automatically-generated TAS Appraisal Assignment (VA Form 26-1805-1), the appraiser must be separately furnished a **complete copy of the sales contract** (including any addenda, change orders, etc.) clearly identifying the subject lot and plan type as well as all options, upgrades, and other customer preference items to be installed in the home. Additionally, any other differences (elevation, reverse floor plan, etc.) must be clearly detailed. A copy of the sales brochure for the subject plan would also be helpful.

### **Lender's Responsibilities - Issuing the LAPP Notice of Value**

Upon notification that the completed appraisal report is available in E-Appraisal, the LAPP Lender's Staff Appraisal Reviewer (SAR) shall issue the Notice of Value (NOV) promptly in TAS, conditioning in accordance with VA Lender's Handbook instructions for New Construction. [Note: for reference purposes, it is recommended that LAPP SARs additionally review and become familiar with the instructions appearing on the following page under "Fee Appraiser's Responsibilities."]

If the appraisal report shows that the property was fully complete on the date of the appraisal, the URAR should be marked "as is." Otherwise, the appraiser will have marked the URAR "subject to repairs, alterations, inspections or conditions listed below." In the latter case, the SAR should check NOV item 10 (Repairs) and fill in the name of the fee appraiser as the person who "is to certify that the following repairs have been satisfactorily completed." Then list all items remaining to be installed or constructed, closely following the appraiser's "repair" list as shown on the URAR (or on the PPMHA Appraisal Addendum designed for that purpose – see sample attached). If more space is needed, use NOV item 20 to continue the list. If, at the time of appraisal, the appraiser deemed the construction not sufficiently advanced to allow for an itemized listing of the remaining work to be done, the report will state:

***"Pilot Program – Appraisal from Model Home. Construction to be completed according to contract dated \_\_\_\_\_. Appraiser is to be contacted for Final Inspection and to provide a statement verifying satisfactory completion."***

In that case, NOV item 10 will simply restate this comment. [Then, when the home is fully complete, the builder or the lender must contact the appraiser to arrange for the Final Inspection. Note that an additional fee of \$100.00 may be charged for the Final Inspection. If the original appraiser is unavailable to perform the inspection, contact Phoenix RLC for instructions.]

On “New Construction” cases, NOV item 1 does not apply. Item 2 is required (specifically 2b – Soil Termite Guarantee) if the home was truly proposed or under construction at the time of appraisal. This is one area where the usual proposed construction requirements are not waived under the Pilot Program.

Since on “new construction” processing there are no VA or HUD inspections during construction, NOV item 12 (“Not Inspected” Acknowledgement) is always required. Lender’s Handbook, Section 13.06, specifies that item 12a (along with item 19) should be checked if the property is to be covered by a one-year builder’s warranty. Item 12b (along with item 13) should be checked if the property is to be covered by a ten-year insured protection plan.

Other required conditions for “New Construction” NOVs will be item 14 (Energy Efficient Construction) and item 15 (Lead/Water Distribution System). Other NOV conditions should be checked only if they specifically apply to the subject property.

### **What Are the Fee Appraiser’s Responsibilities Under this Pilot Program?**

It is the Fee Appraiser’s responsibility to recognize assignments made under this Pilot Program and to perform the appraisal accordingly, following USPAP as well as VA requirements for New Construction appraisals as presented in Lender’s Handbook, Chapter 11. [Note: it is recommended that appraisers refer to and become familiar with the instructions appearing on the previous pages under “Lender’s Responsibilities,” particularly regarding the “Pilot Program” notation to be inserted in “Legal Description” of VA Form 26-1805-1.] If, at the time of appraisal, the subject property is found to be fully complete (or complete except for customer preference items), the appraisal can and should be performed by inspecting the actual subject home rather than the model home.

Inspection of the model home, together with a careful review of the sales contract, sales brochure, and optional items addenda provided by the requester, should provide a sufficiently detailed depiction of the finished subject home for the appraiser to complete the “Description of Improvements” section on page 1 of the URAR as well as the “Subject” column of the “Sales Comparison Analysis” (adjustment grid) section on page 2 of the URAR.

In the “Comments” section at the bottom of page 1 of the URAR, the fee appraiser must describe the subject property’s stage of completion as of the date of the appraisal and insert the statement:

***“Pilot Program – Appraisal from Model Home per LGIB 26-05-09. Value has been based on an inspection of a model home of the same plan type as the subject.”***

In the “Reconciliation” section of the URAR, the appraisal should be made ***“subject to repairs, alterations, inspections, or conditions listed below.”*** If construction has progressed to the stage that it is feasible to do so, the appraiser should provide

in the “Conditions of Appraisal” comment area (or, optionally, on a separate PPMHA Appraisal Addendum designed for that purpose –see attached sample) an itemized list of the remaining items yet to be installed or completed. If the remaining construction is too substantial to list, simply state:

***“Pilot Program – Appraisal from Model Home. Construction to be completed according to contract dated \_\_\_\_\_. Appraiser is to be contacted for Final Inspection and to provide a statement verifying satisfactory completion.”***

In addition to the usual subject and comparable photographs, the appraiser should include a photo of the model home used in preparing the appraisal report. This photo should be clearly labeled as such so the reader will not mistake it for the subject property.

Uploading of the appraisal report to E-Appraisal is the same as any other appraisal. For tracking and reporting purposes, we request that the appraiser additionally alert VA by e-mail at [vavbapho/ro/cvqc@vba.va.gov](mailto:vavbapho/ro/cvqc@vba.va.gov). It would be helpful if the term “PPMHA” or “**Model Home Appraisal**” appears in the subject line. The e-mail itself can be a brief note including the case number and the date the appraisal was uploaded to E-Appraisal. This will assist VA staff in quickly and easily tracking these “Pilot Program Model Home Appraisal” cases as they are completed.

The lender instructions detailed on page 3 of this bulletin advise that once the home is fully complete, either the builder or the lender may contact the fee appraiser to arrange for the Final Inspection. When contacted, the fee appraiser will:

- inspect the finished property to verify that construction has been completed according to the contract – and as envisioned at the time of appraisal – and that all options, upgrades, and customer preference items have been properly installed
- take front and rear photographs of the completed property
- prepare on the appraiser’s letterhead (or on an equivalent form such as FHLMC Form 442) a written statement verifying satisfactory completion of the subject home
- promptly upload the Final Inspection report including the photographs, **along with a full copy of the appraisal report**, to E-Appraisal. This is necessary because each document uploaded to E-Appraisal under a given case number completely replaces the previous submission

### **What Fees May Be Charged?**

The authorized fee for an appraisal performed under this pilot procedure is \$400.00. An additional \$100.00 fee may be charged for the Final Inspection.

**What if there are questions?**

Questions concerning this Pilot Program may be directed to the Construction and Valuation Section by e-mail at [vavbapho/ro/cvqc@vba.va.gov](mailto:vavbapho/ro/cvqc@vba.va.gov) or by telephone at 602-627-3050 (or toll free at 1-888-869-0194 extension 3050).

/Signed/

GRACE COOPER  
Loan Guaranty Officer

Distribution: All Builders, Lenders, and Fee Appraisers within the Jurisdiction of  
Phoenix RLC

Enclosure: Sample PPMHA Appraisal Addendum

Rescission: LGIB 26-04-05 dated May 27, 2004



**Addendum to Fee Appraiser's Report: – for use with Appraisals performed under Phoenix RLC's Pilot Program for Appraisal of Proposed Construction or Under Construction Properties from Model Homes (PPMHA)  
Reference: LGIB 26-05-09, dated September 1, 2005.**

**VA Case #:** \_\_\_\_\_

**Property Address:** \_\_\_\_\_

It is the Fee Appraiser's responsibility to recognize assignments made under this Pilot Program and to perform the appraisal accordingly, following USPAP as well as VA requirements for New Construction appraisals as presented in Lender's Handbook, Chapter 11.

Inspection of the model home, together with a careful review of the sales contract, sales brochure, and optional items addenda provided by the requester, should provide a sufficiently detailed depiction of the finished subject home for the appraiser to complete the "Description of Improvements" section on page 1 of the URAR as well as the "Subject" column of the "Sales Comparison Analysis" (adjustment grid) section on page 2 of the URAR.

VA Appraisal from Model Home Certification(s):

Note: In lieu of completing the required PPHMA statements and certifications on the URAR, the fee appraiser may check and certify by signature the below statements:

- Appraisal from Model Home per LGIB 26-05-09. Value has been based on an inspection of a model home of the same plan type as the subject.***

The fee appraiser must describe the subject property's stage of completion as of the date of the appraisal and include an itemized list of the remaining items yet to be installed or completed. Check only one box, as applicable:

- Subject to completion of construction, repairs, alterations, inspections, or conditions listed below (or alternately listed on the "Conditions of Appraisal" comment area of the URAR).***
- The remaining construction is too substantial to list. Construction to be completed according to contract dated \_\_\_\_\_. Appraiser is to be contacted for Final Inspection and to provide a statement verifying satisfactory completion.***

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_